

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Detroit Economic Development Corporation	County Wayne
Fiscal Year End June 30, 2006	Opinion Date August 15, 2006	Date Audit Report Submitted to State October 3, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

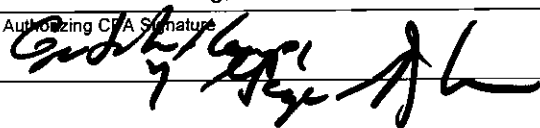
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) George Johnson & Company		Telephone Number (313) 965-2655	
Street Address 1200 Buhl Building, 535 Griswold		City Detroit	State MI
Zip 48226			
Authorizing CPA Signature 		Printed Name George G. Johnson, C.P.A.	License Number 1101006025

ECONOMIC DEVELOPMENT
CORPORATION OF THE
CITY OF DETROIT
(A Component Unit of the
City of Detroit, Michigan)

FINANCIAL STATEMENTS

June 30, 2006 and 2005

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

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INDEPENDENT AUDITORS' REPORT

August 15, 2006

To the Board of Directors
Economic Development Corporation of the City of Detroit
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Economic Development Corporation of the City of Detroit ("EDC"), a component unit of the City of Detroit, Michigan, as of, and for the years ended, June 30, 2006 and 2005, which collectively comprise EDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of EDC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. We also conducted our 2006 audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of EDC as of June 30, 2006 and 2005, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 15, 2006, on our consideration of EDC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Economic Development Corporation of the City of Detroit
August 15, 2006
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INDEPENDENT AUDITORS' REPORT (CONTINUED)

The accompanying management's discussion and analysis and schedules of revenue and expenditures - budget and actual (unrestricted fund) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


CERTIFIED PUBLIC ACCOUNTANTS

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2006 and 2005

This section of the annual report of the Economic Development Corporation of the City of Detroit ("EDC") presents management's discussion and analysis of EDC's financial performance during the fiscal years that ended on June 30, 2006 and 2005. Please read it in conjunction with EDC's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

EDC continued its work on some of the City's most exciting projects. The East Riverfront Redevelopment Project continues to unfold. The Graimark Housing Project on the City's east side and the Brush Park Project just north of downtown continued their progress. The Rosa Parks Transit Center Project shifted into full gear. The Casino Development Fund, a \$42 million series of projects funded by the City, utilizing monies obtained from the three Detroit casinos, was in its infancy.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains two types of financial statements. The statements of net assets and statements of activities (which are presented on pages 8 and 9) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and fund balances for governmental funds (which are presented on pages 10, 11, and 13) are considered fund financial statements. A further discussion of each type of statement follows.

Government-Wide Financial Statements

The government-wide financial statements report information about EDC as a whole using accounting methods similar to those used by private-sector companies and non-profit organizations. The statements of net assets include all of EDC's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statements of activities, regardless of when cash is received or paid.

The two government-wide financial statements report EDC's net assets and how they have changed. Net assets represent the difference between EDC's assets and liabilities, and they represent one way to measure EDC's financial health, or position. Over time, increases or decreases in EDC's net assets are an indicator of whether its financial health is improving or deteriorating.

Fund Financial Statements

The fund financial statements provide more detailed information about EDC's funds, not EDC as a whole. Funds are accounting devices that EDC uses to keep track of specific sources of funding and spending for particular purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**June 30, 2006 and 2005****OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)****Fund Financial Statements (continued)**

Most of EDC's activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending. As such, the fund financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance EDC's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 12 and 14 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 15, explain some of the information in the financial statements and provide more detailed data. A comparison of EDC's unrestricted fund revenue and expenditures to its budget is provided on page 26.

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 1 reflects the condensed statements of net assets as of June 30, 2006, 2005, and 2004:

Table 1
Statements of Net Assets
June 30, 2006, 2005, and 2004
(in millions of dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Cash and investments	\$ 50.3	\$ 42.5	\$ 70.2
Notes receivable	1.8	1.9	2.6
Other assets	1.3	1.5	2.1
Total Assets	<u>\$ 53.4</u>	<u>\$ 45.9</u>	<u>\$ 74.9</u>

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2006 and 2005

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 1
Statements of Net Assets (continued)
June 30, 2006, 2005, and 2004
(in millions of dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Liabilities:			
Long-term liabilities:			
Due or expected to be paid within one year	\$ 1.4	\$ 1.4	\$ 1.5
Due or expected to be paid in more than one year	0.9	1.0	1.3
Other liabilities	<u>6.8</u>	<u>15.8</u>	<u>49.0</u>
Total Liabilities	<u>9.1</u>	<u>18.2</u>	<u>51.8</u>
Net Assets:			
Restricted for development	44.1	27.5	22.9
Unrestricted	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Total Net Assets	<u>\$ 44.3</u>	<u>\$ 27.7</u>	<u>\$ 23.1</u>

The net assets of EDC increased 60 percent to \$44.3 million. This increase is due primarily to revenue received on the first phase of the Casino Development Fund project, as well as the pay down of outstanding liabilities on the East Riverfront Project.

Cash and investments saw an increase as reimbursements were received for some East Riverfront expenses, and the initial revenues on the Casino Development Fund were received. Other liabilities decreased as a large amount of the outstanding liabilities surrounding the East Riverfront project were paid.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2006 and 2005

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 2 reflects the condensed statements of activities for the years ended June 30, 2006, 2005, and 2004:

Table 2
Statements of Activities
For the Years Ended June 30, 2006, 2005, and 2004
(in millions of dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenue:			
Program revenue:			
Reimbursable project costs	\$ 27.1	\$ 11.2	\$ 16.4
Other program revenue	1.5	1.1	0.7
General revenue:			
Grants	<u>0.6</u>	<u>0.3</u>	<u>0.3</u>
Total Revenue	29.2	12.6	17.4
Expenses:			
Economic development	<u>12.6</u>	<u>8.0</u>	<u>12.2</u>
Net Increase in Net Assets	16.6	4.6	5.2
Net Assets, Beginning of Year	<u>27.7</u>	<u>23.1</u>	<u>17.9</u>
Net Assets, End of Year	<u>\$ 44.3</u>	<u>\$ 27.7</u>	<u>\$ 23.1</u>

The change in net assets was discussed earlier. Reimbursable project costs increased because the Transit Center, East Riverfront, and Casino Development Fund projects were very active during the year. Expenses also increased as activity on these same key projects grew.

The following are highlights of the comparison of EDC's unrestricted fund revenue and expenditures to its budget, as shown on page 26:

- EDC had a small surplus in grant revenue as compared to the amount budgeted before the fiscal year began.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2006 and 2005

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

- Aside from grant revenue, there were no significant variances between budgeted and actual results in any other categories.

LONG-TERM LIABILITIES

EDC's long-term liabilities consist of several loans payable to the City of Detroit for various projects that utilize U.S. Department of Housing and Urban Development ("HUD") section 108 or Urban Development Action Grant ("UDAG") funds. This activity is summarized in Note C to the financial statements.

ECONOMIC FACTORS

EDC receives its funding from the City of Detroit Planning Department, as well as from recycled program funds. The Planning Department cut the operating allocation to EDC by 50 percent for the fiscal year ended June 30, 2006. EDC identified recycled program funds to make up the difference for the 2005-06 fiscal year. Funding has been restored to its previous levels for the year beginning July 1, 2006. Economic factors that could adversely affect EDC in the future include a decrease in funding from the City and a lack of future projects that would allow EDC to continue to recycle funds. EDC's management does not anticipate either of these potential factors to adversely affect EDC in the foreseeable future.

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of EDC's finances and to demonstrate EDC's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the office of the chief financial officer of Detroit Economic Growth Corporation, 500 Griswold, Suite 2200, Detroit, Michigan 48226.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

	Governmental Activities	
	2006	2005
Assets:		
Cash (Note A)	\$ 7,661,888	\$ 1,725,472
Escrow deposits (Note A)	21,341,055	16,747,800
Investments (Note A)	21,294,264	24,050,508
Contracts receivable - City of Detroit (no allowance considered necessary)	101,324	343,085
Accounts receivable (no allowance considered necessary):		
Expected to be received within one year	191,713	113,741
Expected to be received in more than one year	1,000,000	1,000,000
Notes receivable, net (Notes A and B)	1,782,375	1,889,812
Total Assets	53,372,619	45,870,418
Liabilities:		
Accounts payable	6,541,587	15,543,777
Due to Detroit Economic Growth Corporation	64,983	22,924
Accrued interest payable	173,624	232,740
Long-term liabilities (Note C):		
Due or expected to be paid within one year	1,363,927	1,382,398
Due or expected to be paid in more than one year	900,000	980,000
Total Liabilities	9,044,121	18,161,839
Net Assets:		
Restricted for development	44,125,389	27,532,628
Unrestricted	203,109	175,951
Total Net Assets	\$ 44,328,498	\$ 27,708,579

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2006 and 2005

	Governmental Activities	
	2006	2005
Expenses:		
Economic development program:		
Project costs	\$ 9,560,133	\$ 5,383,569
Professional services	1,968,258	1,934,141
Administrative and operating expenses (Note A)	1,059,449	631,399
Loan reserves, loan credits, and uncollectible fees	-0-	10,777
Total Program Expenses	12,587,840	7,959,886
Program Revenue:		
Economic development program:		
Reimbursable project costs	27,074,761	11,174,860
Investment and other program revenue	1,542,520	1,114,597
Total Program Revenue	28,617,281	12,289,457
Net Program Revenue	16,029,441	4,329,571
General Revenue:		
Grants	584,585	300,000
Investment and other revenue	5,893	3,172
Total General Revenue	590,478	303,172
Net Increase in Net Assets	16,619,919	4,632,743
Net Assets, Beginning of Year	27,708,579	23,075,836
Net Assets, End of Year	\$ 44,328,498	\$ 27,708,579

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2006 and 2005

	2006			2005		
	Unrestricted Fund	Restricted Funds	Total All Funds	Unrestricted Fund	Restricted Funds	Total All Funds
ASSETS						
Cash (Note A)	\$ 32,199	\$ 7,629,689	\$ 7,661,888	\$ 19,992	\$ 1,705,480	\$ 1,725,472
Escrow deposits (Note A)		21,341,055	21,341,055		16,747,800	16,747,800
Investments (Note A)	155,264	21,139,000	21,294,264	169,583	23,880,925	24,050,508
Contracts receivable - City of Detroit (no allowance considered necessary)	25,000	76,324	101,324	25,000	318,085	343,085
Accounts receivable (no allowance considered necessary)	74,887	116,826	191,713		113,741	113,741
Notes receivable, net (Notes A and B)		1,782,375	1,782,375		1,889,812	1,889,812
Total Assets	\$ 287,350	\$ 52,085,269	\$ 52,372,619	\$ 214,575	\$ 44,655,843	\$ 44,870,418

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

BALANCE SHEETS - GOVERNMENTAL FUNDS (CONTINUED)

June 30, 2006 and 2005

	2006			2005		
	Unrestricted Fund	Restricted Funds	Total All Funds	Unrestricted Fund	Restricted Funds	Total All Funds
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 19,258	\$ 6,522,329	\$ 6,541,587	\$ 15,700	\$ 15,528,077	\$ 15,543,777
Due to Detroit Economic Growth Corporation	64,983		64,983	22,924		22,924
Accrued interest payable		173,624	173,624		232,740	232,740
Maturing loans payable (Note C)		1,363,927	1,363,927		1,382,398	1,382,398
Total Liabilities	84,241	8,059,880	8,144,121	38,624	17,143,215	17,181,839
Fund Balances:						
Reserved for development		44,025,389	44,025,389		27,512,628	27,512,628
Unreserved	203,109		203,109	175,951		175,951
Total Fund Balances	203,109	44,025,389	44,228,498	175,951	27,512,628	27,688,579
Total Liabilities and Fund Balances	\$ 287,350	\$ 52,085,269	\$ 52,372,619	\$ 214,575	\$ 44,655,843	\$ 44,870,418

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO
STATEMENTS OF NET ASSETS**

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Total Fund Balances, Governmental Funds	\$ 44,228,498	\$ 27,688,579
Amounts reported for governmental activities in the statements of net assets differ from amounts reported in the governmental funds balance sheets due to the following:		
Long-term accounts receivable applicable to governmental activities are not due and collectible in the current period and, therefore, are not reported in the funds.	1,000,000	1,000,000
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:		
Loans payable	<u>(900,000)</u>	<u>(980,000)</u>
Total Net Assets, Governmental Activities	<u>\$ 44,328,498</u>	<u>\$ 27,708,579</u>

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Years Ended June 30, 2006 and 2005

	2006			2005		
	Unrestricted Fund	Restricted Funds	Total All Funds	Unrestricted Fund	Restricted Funds	Total All Funds
Revenue:						
Grants	\$ 584,585	\$ -0-	\$ 584,585	\$ 300,000	\$ -0-	\$ 300,000
Reimbursable project costs		27,074,761	27,074,761		11,174,860	11,174,860
Investment and other income	5,893	1,542,520	1,548,413	3,172	1,114,597	1,117,769
Total Revenue	590,478	28,617,281	29,207,759	303,172	12,289,457	12,592,629
Expenditures:						
Current:						
Project costs		9,560,133	9,560,133		5,383,569	5,383,569
Professional services	53,871	1,914,387	1,968,258	31,174	1,902,967	1,934,141
Administrative and operating expenses (Note A)	1,059,449		1,059,449	631,316	83	631,399
Loan reserves, loan credits, and uncollectible fees			-0-		10,777	10,777
Debt service (Note C)		80,000	80,000		275,963	275,963
Total Expenditures	1,113,320	11,554,520	12,667,840	662,490	7,573,359	8,235,849
Excess (Deficiency) of Revenue over Expenditures	(522,842)	17,062,761	16,539,919	(359,318)	4,716,098	4,356,780
Other Financing Sources (Uses):						
Interfund transfers	550,000	(550,000)	-0-	350,000	(350,000)	-0-
Net Increase (Decrease) in Fund Balances	27,158	16,512,761	16,539,919	(9,318)	4,366,098	4,356,780
Fund Balances, Beginning of Year	175,951	27,512,628	27,688,579	185,269	23,146,530	23,331,799
Fund Balances, End of Year	\$ 203,109	\$ 44,025,389	\$ 44,228,498	\$ 175,951	\$ 27,512,628	\$ 27,688,579

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**RECONCILIATIONS OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENTS OF
ACTIVITIES**

For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Net Increase in Fund Balances, Governmental Funds	\$ 16,539,919	\$ 4,356,780
<p>Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balances due to the following:</p> <p>Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statements of net assets. During the years presented, these amounts are as follows:</p>		
Repayment and maturing of line of credit and loans payable	<u>80,000</u>	<u>275,963</u>
Net Increase in Net Assets, Governmental Activities	<u>\$ 16,619,919</u>	<u>\$ 4,632,743</u>

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Purpose

The Economic Development Corporation of the City of Detroit ("EDC") was established under Act No. 338 of the Public Acts of 1974, as amended. Its purpose is to encourage economic development within the City of Detroit, Michigan (the "City") by assisting with the location and expansion of industrial and commercial enterprises in the City.

EDC is empowered to issue limited obligation economic development revenue bonds to finance industrial expansion and relocation within the City, as authorized under Act No. 338 of the Public Acts of 1974, as amended. The ultimate retirement of these bonds is dependent on sufficient revenue from the lease of applicable properties. EDC recycles various grant funds received to provide loans to qualified businesses in the City for commercial and industrial location and expansion at rates less than the prevailing market. Collections on these loans, including interest, are recycled for use in providing similar loans.

For financial reporting purposes, EDC, along with its wholly-owned subsidiary, Neighborhood Development Corporation, is a component unit of the City because the members of EDC's Board of Directors are appointed by the City's mayor and are confirmed by the Detroit City Council, which may veto decisions made by EDC's Board of Directors. There are no fiduciary funds or component units included in the accompanying financial statements.

Basis of Presentation

The financial statements of EDC consist of government-wide financial statements, which include the statements of net assets and statements of activities, and fund financial statements, which include the balance sheets and statements of revenue, expenditures, and fund balances for governmental funds.

Government-Wide Financial Statements

The government-wide financial statements report information about all of EDC's assets, liabilities, net assets, revenue, and expenses, similar to the financial statements of non-governmental enterprises.

Fund Financial Statements

For purposes of the fund financial statements, the accounts of EDC are organized on the basis of governmental funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements (continued)

The various funds are summarized by type in the fund financial statements. The following funds are used by EDC:

Unrestricted Fund

The unrestricted fund is the general operating fund of EDC. It is used to account for all financial resources other than those required to be accounted for in another fund.

Restricted Funds

These special revenue funds reflect the receipt of grant funds, loans issued, and repayments of interest and principal which are restricted for recycling for use in similar economic development projects. These funds are not required to legally adopt a budget.

Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Accordingly, revenue is recorded when earned, and expenses are recorded when incurred. Grants and other revenue intended for use within the restricted funds are classified as program revenue. All other revenue is classified as general revenue.

Fund Financial Statements

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable. In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (continued)

Fund Financial Statements (continued)

Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

Administration

For the years ended June 30, 2006 and 2005, EDC entered into agreements with Detroit Economic Growth Corporation ("DEGC") for administrative and professional services at an annual cost not to exceed \$625,000 per year for the years ended June 30, 2006 and 2005. These expenditures are reflected in administrative expenses for services rendered for each year.

Accounting for Notes Receivable

EDC is in the business of loaning funds to various companies for which, in some cases, the collection process does not begin immediately. In those instances, the collection process may not begin for a number of years. EDC provides a reserve for these loans if and when the loans are deemed to be partially or fully uncollectible. Due to the nature of the collection terms on these loans, recoverability of these loans may be uncertain and, furthermore, may not be evident for a number of years. The ultimate collectibility of these loans is dependent upon the long-term viability of these companies.

Grant Revenue

Grant revenue is recognized when expenses that are reimbursable under an agreement with the funding source are incurred.

Cash Deposits

State of Michigan statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts be made with banks doing business and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial credit risk is the risk that, in the event of a bank failure, EDC's deposits may not be returned to EDC. EDC does not have a deposit policy for custodial credit risk.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)**June 30, 2006 and 2005****NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Cash Deposits (continued)**

As of June 30, 2006 and 2005, EDC's carrying amount of deposits and bank balances, and the bank balances that are not covered by federal depository insurance, are as follows:

	<u>2006</u>	<u>2005</u>
Carrying amount of deposits	\$ 7,661,888	\$ 1,725,472
Total bank balances	<u>\$ 8,690,761</u>	<u>\$ 1,783,822</u>
Uninsured and uncollateralized bank balances	<u>\$ 8,390,761</u>	<u>\$ 1,559,509</u>

Investments

Investments are recorded at fair value, based on quoted market prices. As of June 30, 2006 and 2005, EDC's investments are classified as follows:

	<u>2006</u>	<u>2005</u>
Investments held by the counterparty's trust department or agent in EDC's name:		
Money market funds:		
AAAm rating from Standard & Poor's:		
J.P. Morgan U.S. Government Money Market Fund	\$ 8,069,319	\$ 8,940,443
J.P. Morgan Prime Money Market Fund	7,404,322	7,795,841
PrimeVest Treasury Cash Money Market Fund	869,355	1,881,090
Unrated:		
J.P. Morgan Liquid Assets Money Market Fund	<u>214,726</u>	<u>485,014</u>
Total Money Market Funds	<u>\$ 16,557,722</u>	<u>\$ 19,102,388</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)**June 30, 2006 and 2005****NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Investments (continued)**

	<u>2006</u>	<u>2005</u>
Investments held by the counterparty's trust department or agent in EDC's name (continued):		
Debt securities:		
AAAm rating from Standard & Poor's:		
Federal Home Loan Bank (maturity date June 4, 2007)	\$ 2,724,764	\$ 2,734,368
Federal National Mortgage Association (maturity date April 15, 2007)	<u>1,396,719</u>	<u>1,434,132</u>
Total Debt Securities	<u>4,121,483</u>	<u>4,168,500</u>
U.S. Treasury notes:		
Maturity date May 15, 2007	615,059	628,209
Maturity date May 15, 2006	<u>-0-</u>	<u>151,411</u>
Total U.S. Treasury Notes	<u>615,059</u>	<u>779,620</u>
Total Investments	<u>\$ 21,294,264</u>	<u>\$ 24,050,508</u>

State of Michigan statutes authorize EDC to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Act, and mutual funds composed entirely of the above investments. EDC has no investment policy that would further limit its investment options.

EDC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, EDC will not be able to recover the value of its investments that are in the possession of an outside party. EDC places no limit on the amount it may invest in any one issuer. Investments that represent five percent or more of EDC's total investments are identified in the above schedule.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Escrow Deposits

Escrow deposits are monies which are held in an escrow account administered by a financial institution designated by EDC and are used specifically for a development project. Interest earnings are either capitalized for future development use or remitted to EDC upon notice. In both cases, interest earnings are recognized as interest income by EDC. Escrow deposits as of June 30, 2006 and 2005 are for casino land development.

Bonds Issued

Bonds issued by EDC are not obligations of EDC and, accordingly, are not reflected on the accompanying financial statements. The bonds are secured by indentures and mortgages on real property.

Interfund Transactions and Eliminations

Interfund transactions are recorded as a payable by the receiving fund and as a receivable by the advancing fund in the fund financial statements. All interfund transactions and balances have been eliminated in the accompanying financial statements.

Allowance for Doubtful Notes Receivable

EDC charges notes receivable to the allowance for doubtful notes receivable when it is probable that a note receivable is impaired (that is, when EDC will be unable to collect all amounts due according to the contractual terms of the agreement). Changes in the present value of an obligation's expected future cash flows from one reporting period to the next are recorded as additions or reductions to the allowance for doubtful notes receivable. EDC also includes in the allowance for doubtful notes receivable a general provision based on EDC's historical recovery of these receivables.

NOTE B - NOTES RECEIVABLE

EDC's portfolio of notes receivable as of June 30, 2006 and 2005 is as follows:

Bricktown Properties, Inc.

This note receivable is collateralized by a fee mortgage on real property. Interest is payable based on cash flow availability, and principal repayment is to occur 20 years after the earlier of construction completion or June 30, 1987.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006 and 2005

NOTE B - NOTES RECEIVABLE (CONTINUED)

Wayne State University

Two notes receivable were issued; one was under a federal Block Grant, and the other was under a Recycled Urban Development Action Grant ("UDAG"). Both notes are non-interest bearing and are due in 2010, or upon sale or refinancing of the project, in accordance with the terms of the agreements.

Motor City Building Materials, Inc.

This note receivable is collateralized by a first mortgage on property. The loan was made to assist in the purchase of property adjacent to an EDC building which is used as a materials distribution center. The loan is to be repaid over four years.

Riverbend

This note receivable is due on demand, with interest due at one percent over the prime rate. The note is for gap financing, awaiting U.S. Department of Housing and Urban Development ("HUD") section 108 funds from the City. Repayment is expected within one year.

Midtown Development Corporation

This note receivable is due on demand, with interest due at one percent over the prime rate. The note is for gap financing, awaiting HUD UDAG funding. Repayment is expected within one year.

Ring Screw Textron, Inc.

This loan was made to cover construction costs. Annual payments are due on each July 31, with the final payment due on July 31, 2007.

Ferry Street Development Company, L.L.C.

Annual payments on this note receivable commence on December 31, 2008, and continue on each December 31 through and including December 31, 2020. Interest is computed at six percent, and begins to accrue on January 1, 2008.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006 and 2005

NOTE B - NOTES RECEIVABLE (CONTINUED)

The outstanding balances on these notes receivable are as follows as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Bricktown Properties, Inc.	\$ 275,000	\$ 275,000
Wayne State University:		
Block Grant note	600,000	600,000
Recycled UDAG note	600,000	600,000
Motor City Building Materials, Inc.	21,380	32,644
Riverbend	1,080,619	1,151,131
Midtown Development Corporation	300,000	300,000
Ring Screw Textron, Inc.	81,358	127,092
Ferry Street Development Company, L.L.C.	500,000	500,000
Various notes receivable that have been fully reserved	<u>2,221,025</u>	<u>2,221,025</u>
	5,679,382	5,806,892
Less: Allowance for doubtful notes receivable	<u>(3,897,007)</u>	<u>(3,917,080)</u>
Net Notes Receivable	<u>\$ 1,782,375</u>	<u>\$ 1,889,812</u>

Changes in the allowances for doubtful notes receivable are as follows for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 3,917,080	\$ 4,079,602
Additions (reductions)	(20,073)	(71,982)
Less: Write-off of uncollectible notes receivable	<u>-0-</u>	<u>(90,540)</u>
Balance, End of Year	<u>\$ 3,897,007</u>	<u>\$ 3,917,080</u>

Because of the long-term nature of these notes receivable and the uncertainty of the time of collection on many of these notes receivable, the fair value of these notes receivable as of June 30, 2006 and 2005 cannot be readily determined.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006 and 2005

NOTE C - LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2006 and 2005 consist of the following:

Line of Credit

EDC established a \$4.3 million line of credit with Bank One. Interest is charged at one percent over Bank One's prime rate. The line of credit is guaranteed by the future income streams of two of EDC's UDAG notes receivable. Payments on the line of credit are made primarily from the restricted funds. No balance was outstanding on this line of credit as of June 30, 2006, 2005, or 2004.

Loans Payable - City of Detroit

EDC is administering loans for the City under various loan programs. The repayment terms to the City are similar to the corresponding notes receivable (see Note B). EDC acts as a pass-through agency for these loans unless instructed by the City to retain the loan repayments for possible future project activity. Payments on these loans are made primarily from the restricted funds.

Long-term liability activity for the years ended June 30, 2006 and 2005 is as follows:

Balance, July 1, 2004	\$ 2,764,148
Less: Repayments	<u>(401,750)</u>
Balance, June 30, 2005	2,362,398
Less: Repayments	<u>(98,471)</u>
Balance, June 30, 2006	<u>\$ 2,263,927</u>
Amounts Due Within One Year:	
June 30, 2005	<u>\$ 1,382,398</u>
June 30, 2006	<u>\$ 1,363,927</u>

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006 and 2005

NOTE C - LONG-TERM LIABILITIES (CONTINUED)

Maturities of long-term liabilities are as follows as of June 30, 2006:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,363,927	\$ 142,726	\$ 1,506,653
2008	80,000	62,991	142,991
2009	85,000	57,202	142,202
2010	85,000	51,173	136,173
2011	85,000	45,081	130,081
2012-2016	520,000	120,125	640,125
2017	45,000	1,593	46,593
	<u>\$ 2,263,927</u>	<u>\$ 480,891</u>	<u>\$ 2,744,818</u>

NOTE D - REIMBURSABLE CONTRACTS

EDC has entered into contracts to render services in exchange for reimbursements with local and state governments and agencies or departments. Contract costs (primarily operating expenses) allocated and billed to the contracts are subject to audit by the respective parties; however, no costs incurred prior to July 1, 1998 are subject to further audit.

NOTE E - RISK MANAGEMENT

The directors and officers of EDC have been indemnified from risk by the Detroit City Council (the "Council"). In July 1980, the Council provided indemnity to EDC Board members for any claims or causes of action brought against them acting in their official authorized capacity for EDC. EDC does maintain general liability insurance on any land that it may acquire through the acquisition process of the various projects it handles for the City. EDC is not in the business of buying and holding land; therefore, any land it may take title to is only held on a temporary basis until it can be turned over to the City or to a developer. The risk EDC undertakes in this process is minimal and, in management's opinion, is sufficiently covered by its insurance policies.

REQUIRED SUPPLEMENTARY INFORMATION

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

SCHEDULES OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - UNRESTRICTED FUND (UNAUDITED)

For the Years Ended June 30, 2006 and 2005

	2006			2005		
	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget	Original Budget	Final Budget
Revenue:						
Grants	\$ 555,333	\$ 555,333	\$ 584,585	\$ 29,252	\$ 300,000	\$ 300,000
Investment and other income	4,667	4,667	5,893	1,226	10,000	3,172
Total Revenue	560,000	560,000	590,478	30,478	310,000	303,172
						(6,828)
Expenditures:						
Current:						
Professional services	54,667	54,667	53,871	796	40,000	31,174
Administrative and operating expenses	1,055,333	1,055,333	1,059,449	(4,116)	640,000	631,316
Total Expenditures	1,110,000	1,110,000	1,113,320	(3,320)	680,000	662,490
						17,510
Excess (Deficiency) of Revenue over Expenditures	(550,000)	(550,000)	(522,842)	27,158	(370,000)	(359,318)
Other Financing Sources:						
Interfund transfers	550,000	550,000	550,000	-0-	350,000	350,000
Net Increase (Decrease) in Fund Balance	\$ -0-	\$ -0-	\$ 27,158	\$ 27,158	\$ (20,000)	\$ (9,318)
						\$ 10,682

See note to schedules of revenue and expenditures - budget and actual (unrestricted fund).

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**NOTE TO SCHEDULES OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL - UNRESTRICTED FUND (UNAUDITED)**

For the Years Ended June 30, 2006 and 2005

NOTE A - BUDGETS AND BUDGETARY ACCOUNTING

The Economic Development Corporation of the City of Detroit ("EDC") establishes a budget that is reflected in the financial statements for the unrestricted fund. The budget is presented on the modified accrual basis of accounting.

Budgeted amounts are as presented to EDC's Finance Committee and approved by EDC's Board of Directors. No amendments to the budget were made during the year. Appropriations are authorized by EDC's management. Unexpended appropriations lapse at the end of the fiscal year.